NATIONAL TELECOMMUNICATIONS COOPERATIVE ASSOCIATION
The Voice of Rural Telecommunications
www.ntca.org

September 9, 2011

Ex Parte **Notice**

Ms. Marlene H. Dortch, Secretary
Federal Communications Commission
445 12th Street, S.W.
Washington, D.C. 20554

***Connect America Fund,* WC Docket No. 10-90; *A National Broadband Plan for Our Future,* GN Docket No. 09-51; *Establishing Just and Reasonable Rates for Local Exchange Carriers,* WC Docket No. 07-135; *High-Cost Universal Service Support,* WC Docket No. 05-337; *Developing* a *Unified Intercarrier Compensation Regime,* CC Docket 01-92; *Federal-State Joint Board on Universal Service,* CC Docket No. 96-45; *Lifeline and Link-Up,* WC Docket No. 03-109**

Dear Ms. Dortch:

On Thursday, September 8, 2011, the undersigned, on behalf of the National Telecommunications Cooperative Association ("NTCA"), together with Joshua Seidemann of NTCA, Steve Pastorkovich from the Organization for the Promotion and Advancement of Small Telecommunications Companies, Derrick Owens and Gerry Duffy on behalf of the Western Telecommunications Alliance, Paul Cooper from Fred Williamson and Associates, Jeff Dupree from the National Exchange Carrier Association, Mark Gailey from Totah Communications (via telephone), and Robert DeBroux from TDS Telecommunications Corporation (via telephone) (collectively, the "Rural Representatives") met with Sharon Gillett, Carol Mattey, Steve Rosenberg, Rebekah Goodheart, Patrick Halley, Al Lewis, Randy Clarke, Doug Slotten, Kevin King, Victoria Goldberg, and Dan Ball of the Wireline Competition Bureau to address the intercarrier compensation ("ICC") components of the reform proposal submitted by the rural associations (the "RLEC Plan") in the above-referenced proceedings.

Specifically, the Rural Representatives walked the staff through the methodology in the RLEC Plan for determining an ICC restructure mechanism for rural rate-of-return carriers of last resort ("RLECs") as explained in a recent filing and further in additional materials attached hereto. *See Ex Parte* Letter from Jeffrey Dupree, Vice President, Government Relations, NECA, to Marlene H. Dortch, Secretary, FCC (filed Aug. 29, 2011). The Rural Representatives addressed questions relating to the calculation of such a restructure mechanism, including the development of separate interstate and intrastate revenue requirements, the application or imputation of subscriber line charges in connection with local service benchmarks, and the application of a regulated intrastate earnings test to the intrastate portion of the restructure mechanism.

The Rural Representatives also discussed potential rule amendments and/or modifications to existing rules that might need to be made to implement the ICC reforms specified in the RLEC Plan. To facilitate this discussion, the Rural Representatives provided the attached draft list of those rules that they had identified thus far as potentially requiring changes or updates to achieve ICC and USF reform, discussed the status of their efforts to develop further those proposals, and committed to provide staff with further updates and information on these efforts.

Finally, the Rural Representatives provided (as attached hereto) and discussed with staff information related to the estimated calculation of the restructure mechanism, including a jurisdictional division of the restructure mechanism and the estimates and assumptions used to make the calculations shown. In addition to committing to provide further information about certain of the assumptions used in the restructure mechanism calculation, the Rural Representatives provide with this letter the following information about the estimated amount of the restructure mechanism attributable to net reciprocal compensation revenues:

Estimated impact of reciprocal compensation on the RLEC restructure mechanism amount:

Years	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**
Net Recip Comp Impact (in millions)	$8.2	$11.6	$14.6	$18.2	$22.9	$23.4	$25.2	$26.7

Pursuant to Section 1.1206 of the Commission's rules, a copy of this letter is being filed with your office. A copy of the materials distributed in the meeting is attached hereto. If you have any questions, please do not hesitate to contact me at (703) 351-2016 or mromano@ntca.org.

Sincerely,

/s/ Michael R. Romano
Michael R. Romano

Senior Vice President - Policy

Enclosures

cc: Sharon Gillett
Carol Mattey
Steve Rosenberg
Rebekah Goodheart
Patrick Halley
Al Lewis
Randy Clarke
Victoria Goldberg
Doug Slotten
Kevin King
Dan Ball

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August 29, 2011

Ms. Marlene H. Dortch
Secretary
Federal Communications Commission
445 12th Street, SW
Washington, D.C. 20554

Re: Intercarrier Compensation Reform Plan (RLEC Plan) Submitted by NECA and Other National Associations Filed April 18, 2011, as Modified Subsequently by a Broader Industry "Consensus Framework" Filed July 29, 2011; WC Docket Nos. 10-90, 07-135, 05-337, 03-109; CC Docket Nos. 01-92, 96-45; GN Docket No. 09-51

The National Exchange Carrier Association (NECA), National Telecommunications Cooperative Association (NTCA), Organization for the Promotion and Advancement of Small Telecommunications Companies (OPASTCO), and the Western Telecommunications Alliance (WTA)(collectively, the Rural Associations) hereby submit additional details of the proposals set forth by the Rural Associations in their April 18, 2011, comments in the above-captioned dockets, as modified by the Industry Consensus Letter (RLEC Plan). The RLEC Plan is a path forward for Universal Service Fund (USF) and intercarrier compensation (ICC) reform in RLEC service areas that not only serves the interests of consumers in these areas, but also consumers nationwide.

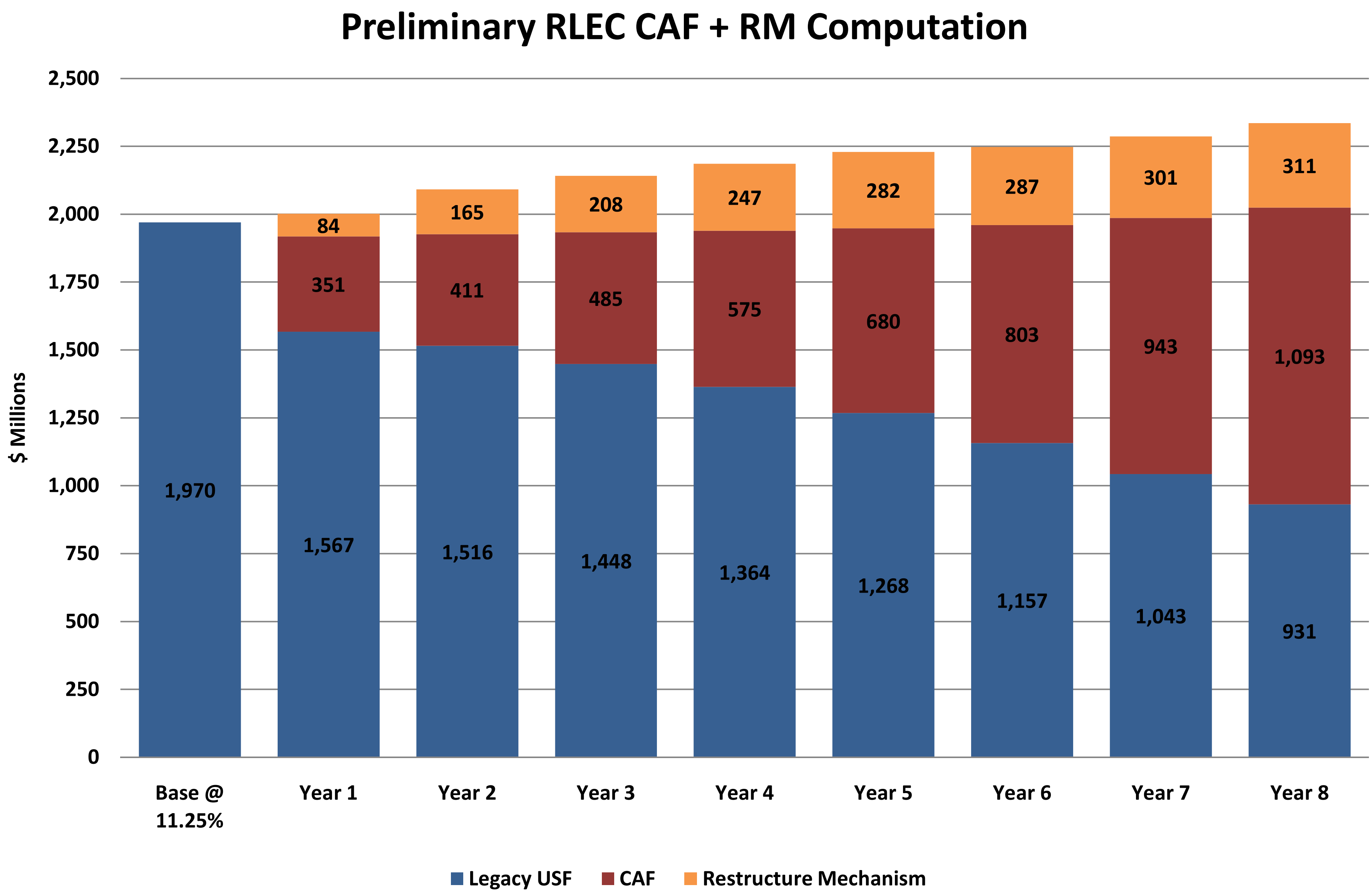
The attached chart displays the results of the estimated impacts of the transition to the Connect America Fund (CAF) and the ICC reform transition steps in the RLEC Plan. These estimates were produced using industry-wide assumptions and growth rates, together with preliminary inputs and factors, as detailed in the "Preliminary RLEC CAF Computations - Assumptions and Calculations" component of the attachment, as well as the description of the Restructure Mechanism (RM) calculation. While company-specific network and growth characteristics could produce results on an individual company basis that may vary from the industry-wide assumptions, these assumptions and the preliminary inputs and factors used to date indicate that the aggregate results displayed should reasonably reflect the anticipated levels of CAF/USF and RM support under the RLEC Plan. The Rural Associations are currently working, however, with RLEC consultants to evaluate further the RLEC Plan, as modified by the Consensus Framework. This further analysis will help determine if any additional adjustments may be required to achieve these estimated results based upon the Consensus Framework, as well as to assess whether any adjustments may be required to moderate individual company impacts during the transition to a new plan.

As displayed in the chart, the RLEC Plan and modifications thereto consistent with the Consensus Framework are being designed with the objective of staying within the annual funding target for each of the first six years following implementation. The Consensus Framework proposes that the Commission establish an annual funding target for areas served by rate-of-return carriers that begins at $2 billion and, to the extent necessary to help ensure sufficient funding, increases by $50 million per year (i.e., starting with an additional $50 million in the first year and increasing to $300 million, or a total annual budget target of $2.3 billion, in the sixth year). Such incremental funding will be necessary to enable access restructuring, promote further broadband build-out (but only to the extent supported by increases in USF/CAF funding above current levels for any individual company), and provide a reasonable opportunity to recover the costs associated with existing investments in broadband-capable plant.

Pursuant to Section 1.1206 of the Commission’s rules, a copy of this letter is being filed via ECFS with your office.

Sincerely,

*** WORK IN PROGRESS ***
*** SUBJECT TO CHANGE ***



Note: Data reflects initial estimated levels of support based on aggregated study area totals and assumptions as explained on the accompanying Assumptions and Calculations document.

08/29/2011

Preliminary RLEC CAF Computations

Assumptions and Calculations

General Assumptions/Notes:

- Preliminary inputs and assumptions were developed for purposes of aiding estimation, investigation, analysis, and potential further resolution/modification. Any given input or assumption may be subject to change based upon the results of this further review and analysis.
- Calculations based on 709 cost company study areas participating in NECA's Common Line pool.
- Amounts are grossed-up to reflect all companies participating in NECA's CL pool (i.e., including average schedule companies). Factor for HC support = 1.1435.
- Revenue requirement data and additional loop costs based on 2009 cost studies recalculated at 10% rate of return.
- RLEC CAF calculation reflects corporate operations expense limitation.
- Additional loop costs assigned to interstate based on the broadband take rate are transitioned over 12 years and the broadband benchmark is adjusted accordingly.
- DSL line counts are as reported to NECA pooling for companies participating in NECA's DSL tariff.
- Whenever individual study area data is not available, NECA pool-wide averages are used.

Data Assumptions and Defaults:

- Interstate Revenue requirement (RRQ) amounts:
    - Sum of CL, SW, SP (excl DSL RRQ) and DSL RRQ
        - Includes the USF high cost loop corporate operations expense limitation and a capital expenditure limitation.
    - Default average annual growth projections:
        - CL RRQ=+2.2%;
        - SW RRQ = -3.0%;
        - SP RRQ (incl. DSL) = +4.9%;
        - LS RRQ = -3.3%;
        - LSS = -2.1%;
        - SLC revs and access lines = -4.7%
    - Special Access RRQ includes the DSL Access Service Connection Point (DSL ASCP) and the interconnection between the DSL ASCP and the ISP.
- Second mile costs are those costs included in the DSL RRQ. In the case of "naked DSL," the loop cost is also included in the DSL RRQ.
- Middle mile costs are estimated amounts for the costs of broadband transmission beyond the DSL connection point to the Internet backbone.
    - Default estimated amounts = $5.34 x broadband lines x 12 based on NECA pool average.
- Additional Loop Costs allocated to the interstate jurisdiction based on the difference between the study area's broadband take rate and the current gross allocator (i.e., 25%), subject to the 12 year transition.
- Broadband take rate = Broadband Lines/Total Access Lines.
    - Broadband lines assumed to equal DSL lines
    - Counts of "Naked DSL" lines should be included in both Total Access Lines and Broadband Lines.
    - Broadband take rate cannot exceed 100% by definition.

Preliminary RLEC CAF Computations

Assumptions and Calculations

- SLC revenues are based on currently effective subscriber line charges applied according to current FCC access charge rules.

Calculations:

- All calculations performed each year.
- Additional Loop Costs allocated to interstate based on the difference between the broadband take rate and the current gross allocator (i.e., 25%).
    - If broadband take rate is less than 25%, use 25% for cost allocation purposes resulting in no additional loop costs being allocated to interstate.
    - Results of the Additional Loop Cost allocation are transitioned over 12 years, i.e., increase in the additional loop allocation by 1/12 each year.
- Broadband RRQ is:
    - Sum of last mile, second mile, middle mile and related Internet connection costs for working broadband lines (including ADSL and naked DSL)
    - Calculated as: (CLRRQ x broadband take rate) + Transitioned Additional Loop Costs + Second mile (i.e., DSL RRQ)+ Middle Mile costs
- Study area benchmark is comprised of the sum of a fixed component and a variable component as follows:
    - Fixed component starts at $19.25 in year1, increasing for all study areas to $24.75 in year 8.
    - Study area variable component based on the study area's take rate. Starts at $6.50 and increases as the take rate increases (e.g., variable component at 25% take rate = $6.50; at 50% take rate = $13.00; at 75% take rate = $19.50).
        - Variable component transitioned over 12 year period. For example, if year 1 take rate is 50%, year 1 variable component would be $6.50 base amount plus 1/12 of additional $6.50 = $6.50 + $0.54 = $7.15; total year 1 benchmark would be $19.25 + $7.15 = $26.40.

Support Calculations:

- Broadband transmission component = (Broadband RRQ per broadband line per month - study area benchmark) x broadband lines x 12 to annualize.
    - Broadband RRQ per broadband line (per month) = Broadband RRQ / Broadband lines / 12
- Grandfathered support = difference between the amount of HCL+SNA+SV support and Transitioned Additional Loop Costs included in Broadband Transmission Component of the CAF. For example, if the HCL amount is $120 and the additional loop costs included in the CAF is $100, grandfathered HCL will be $20 ($120 - $100).
- ICLS is calculated using voice-only components of CL revenue requirement and SLC revenues = (CL RRQ x (1-broadband take rate)) - (SLC Revenues x (1-broadband take rate).
- Local Switching Support, High Cost Loop Support, Interstate Common Line Support, Safety Net Additive and Safety Valve Support are calculated or estimated according to current rules.

RLEC Restructure Mechanism (RM) Calculation

Overview

The RM is designed to recover revenue losses as a result of capping interstate originating and terminating switched access rates at the start of access reform as well as revenue losses caused by reducing terminating access rates to targeted levels in three phases. In Phase I intrastate terminating switched access rates[1] are reduced to capped interstate rate levels in two steps.[2] In Phase II, terminating end office rates[3] are reduced to $.005 per minute in three steps. In Phase III, subject to FCC review in year 5, terminating end office rates are further reduced to $.0007 per minute in three steps. Transport and tandem switching rates remain unchanged at capped interstate rate levels.

Calculation of Revenue Shortfalls

The interstate revenue shortfall is the difference between interstate revenue requirements (RR) in a given step and Local Switching Support (LSS) plus the revenue produced by capped or targeted interstate switched access rates in that step applied to actual demand for that step (year). The revenue loss attributable to capping (i.e., there is no upward adjustment in rates levels to reflect the fact that billable minutes are declining faster than revenue requirements) applies to originating and terminating interstate minutes in steps one through eight. Interstate switched access revenue requirements are adjusted annually based on expected cost study results for the company and reflect a 10% rate of return (RoR). The revenue loss attributable to targeting rates in Phases II and III, steps three through eight, applies only to terminating end office rates.

The intrastate revenue shortfall is calculated in a similar manner to the interstate revenue shortfall by calculating the difference between intrastate terminating switched access revenue requirements in a given step and the revenue produced by targeted intrastate switched access terminating rates applied to actual demand in that step plus net reciprocal compensation revenue[4] in that step. Since intrastate terminating revenue requirement is not available, base year switched access terminating revenue plus net reciprocal compensation revenue is used as a surrogate for revenue requirement.[5] The base year

[1] Includes local switching, information surcharge, tandem switching, local transport (both common and dedicated). Intrastate CCL rates are added to intrastate LS rates and the intrastate transport rate structure is conformed to the interstate rate structure where required at the beginning of step 1.

[2] A step is equivalent to a one year period. The current view is that the first step would begin on July 1, 2012 coincident with the effective date of the 2012 Annual Tariff Filing. On that date intrastate rates would be decreased by one half of the difference between the intrastate rates and the interstate rates. On July 1, 2013, the intrastate rates would be further decreased to the interstate rate levels. The first step of Phase II would be implemented on July 1, 2014, i.e., terminating end office rates would be reduced by one third of the difference between existing interstate terminating end office rates and $.005.

[3] End office rates defined as local switching and information surcharge.

[4] Net reciprocal compensation revenue is defined as the difference between reciprocal compensation revenue received from other carriers and reciprocal compensation expense paid out to other carriers. Since existing reciprocal compensation rates are a composite of end office and transport, a weighted average of terminating switched access end office rates and terminating transport rates would be calculated for each study to compare to the reciprocal compensation rate. If the reciprocal compensation rate is higher than the weighted average access rate, it is reduced to that level(subject to change of law clause); if it is lower, there is no change to the reciprocal compensation rate.

[5] The base year terminating revenue requirement is developed using the company specific base year terminating/originating ratio. The intrastate terminating revenue requirement is adjusted on a going forward basis

revenue requirement is adjusted each year by the percentage change in interstate switched access revenue requirement for the company. The intrastate revenue shortfall results from reducing intrastate terminating rates to interstate levels in Phase I and further reducing terminating end office rates to targeted levels in Phases II and III.

Calculation of RM

The total revenue shortfall is the sum of the intrastate and interstate revenue shortfalls. It is important to distinguish between the two revenue shortfalls because they have different effects on the RM calculation. The RM is calculated by offsetting the combined revenue shortfalls by increases in subscriber line charge (SLC) revenue. Intrastate regulated earnings test applies only to the intrastate revenue shortfall.

Any study area with a residential rate below the $25 local rate benchmark,[6] must increase (or impute) its monthly residential SLC rate by $.75 per year to reach the benchmark, subject to a maximum of six increases of $.75 or $4.50. Additional SLC revenues are used to offset the intrastate component of the RM first. If additional SLC revenues in a given step exceed the intrastate RM, the SLC revenue in excess of the intrastate RM is then used to offset the interstate component of the RM.

An intrastate regulated earnings test is performed using a 10% rate of return (RoR) each year using FCC Part 32 and 36 rules. Earnings in excess of a 10% RoR for that year will be used to offset the intrastate component of the RM calculated for that year after the SLC revenue offset has been taken into account.

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by the overall percent change in interstate switched access revenue requirement, i.e., the terminating/originating ratio is not recalculated each year.

[6] Local rate benchmark includes residential basic local exchange rate, intrastate and interstate SLCs, mandatory EAS, and state USF per line.

Your submission has been accepted

ECFS Filing Receipt - Confirmation number: 2011829907623

Proceedings

Name	Subject
10-90	In the Matter of Connect America Fund A National Brooadband Plan for Our Future High-Cost Universal Service Support. .
07-135	In the Matter of Establishing Just and Reasonable Rates for Local Exchange Carriers. .
05-337	In the Matter of Federal -State Joint Board on Universal Service High-Cost Universal Service Support. .. .
03-109	In the Matter of Lifeline and Link-Up
01-92	Developing a Unified Intercarrier Compensation Regime.
96-45	FEDERAL-STATE JOINT BOARD ON UNIVERSAL SERVICE
09-51	In the matter of a National Broadband Plan for Our Future.

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Details

exparte: YES
Type of Filing: NOTICE OF EXPARTE

Document(s)

File Name	Custom Description	Size
Data Ex Parte 082911.pdf	RLEC CAF Data Ex Parte	41 KB
RLEC Data Exparte Attachment 082911.pdf	RLEC CAF Impact Chart	112 KB

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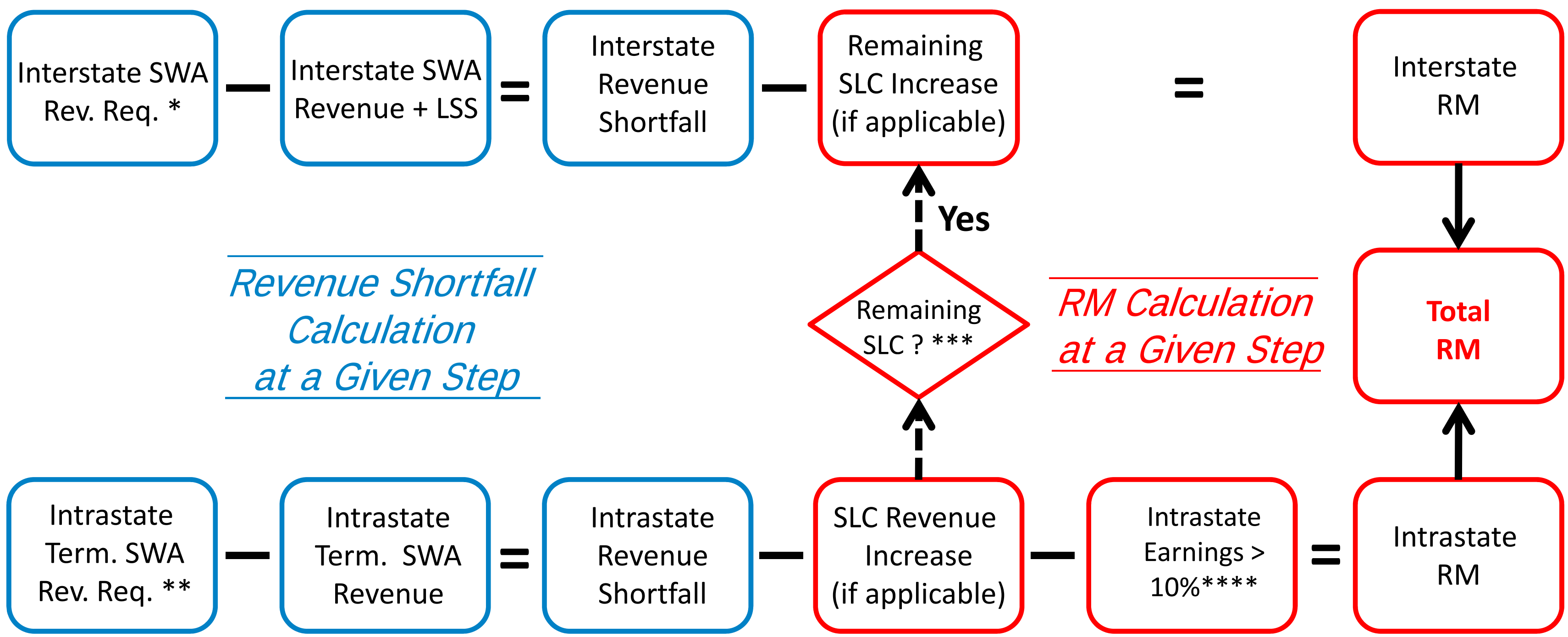
Consensus Plan
RLEC Plan Modifications



* Interstate rev. req. adjusted annually. Calculated using a 10% RoR.

** Since intrastate terminating rev. req. is not available, base year terminating rev. req. = base year SWA terminating intrastate revenue plus net reciprocal compensation revenue (difference between reciprocal compensation revenue received from other carriers and the reciprocal compensation paid out to other carriers). The base year rev. req. is then adjusted each year by the percent change in interstate rev. req. for that company.

*** Increases in SLCs for a given year (where required) would first go to offset intrastate RM. To the extent that SLC increases in a given step exceed the intrastate RM, the excess SLC increase would offset the interstate RM.

**** An intrastate regulated earnings test is performed using a 10% RoR each year using FCC part 32 and 36 rules. Earnings in excess of 10% for that year will be used to offset the intrastate component of the RM calculated for that year.

COMPANY : Company ABC SAC: #####

			TOTAL REGULATED <u>INTRASTATE</u>
Intrastate Earnings Calculation			
1	Total Rate Base	*Input*	$ 2,400,000
2	Return on Rate Base		10.00%
3	Net Operating Income	*line 1 * line 2*	$ 240,000
4	State & Fed Income Taxes	*Input*	$120,938
5	Operating Expenses and Other Taxes	*Input*	$1,070,000
6	Intrastate Rev. Req. @ 10%	*line 3+line 4+Line 5*	$1,430,938
7	Intrastate Revenue	*Input*	1,250,000
8	Revenue Surplus/(Deficiency)	*line 6 - line 7*	(180,938)

ICC Reform for Rate of Return Companies		
No.	**Change Description**	**Potential Rule Impacts**
	NPRM Section XV Proposals	
1.0	**VoIP**	
1.1	Confirm access charges apply to VoIP and other services utilizing the PSTN regardless of technology.	▪ 69.5(b) Persons to be Assessed
1.2	Rate interexchange IP calls as interstate regardless of whether calls originate and terminate in same state.	▪
		▪ 69.2 Definitions
2.0	**Phantom Traffic**	
2.1	Require all providers (not just carriers) to conform to Call Signaling Rules	▪ 64.1600 et seq.
2.2	Require provision of "true" CPN and other data in signaling stream; make clear CPN must be for customer originating the call not "platform" or other intermediate switches.	▪ 64.1600 et seq.
2.3	Require provision of carrier or provider identification in the signaling stream	▪ 64.1600 et seq.
2.4	Require transmission of all information by intermediate carriers – no stripping or altering data.	▪ 64.1600 et seq.
2.5	Authorize use of telephone numbers as default mechanism to determine jurisdiction of calls.	▪ 64.1600 et seq.
2.6	Enforcement provisions	▪ 64.1600 et seq.
2.7	Routing provisions	▪ 64.1600 et seq.
2.8	Provisions to allow ILECs to demand interconnection agreements with CLECs	▪ Part 51 (Interconnection Rules)

ICC Reform for Rate of Return Companies		
No.	**Change Description**	**Potential Rule Impacts**
3.0	**Access Stimulation**	
3.1	Establish MOU Trigger to re-file tariffs	▪
		▪

ICC Reform for Rate of Return Companies		
No.	**Change Description**	**Potential Rule Impacts**
		Rate Unification
4.0	**Scope of FCC Access Charge Rules**	
4.1	Extend application of Part 69 Rules to all interexchange telecommunications.	▪ 69.1, other sections.
5.0	**Mirroring Interstate Rate Structures (Applicable if tariffs continue to be filed in intrastate jurisdiction)**	
5.1	Establish intrastate mirroring of interstate switched access rate structures.	▪ 69.1 (Application) ▪ 69.3 (Filing of Access Service Tariffs) ▪ 69.4 (Charges to be Filed)
5.2	Mirroring of Interstate switched access rate changes	▪ 69.3 (Filing of Access Service Tariffs)
5.3	Eliminate intrastate CCL Charges	▪ 69.3
6.0	**Capping Interstate Originating & Terminating Rates**	
6.1	Cap interstate originating and terminating switched access rates.	▪ 69.106 (Local Switching) ▪ 69.108 (Transport Rate Benchmark) ▪ 69.109 (Information) ▪ 69.110 (Entrance Facilities) ▪ 69.111 (Tandem-Switched Transport & Tandem Charge) ▪ 69.112 (Direct-trunked Transport)
7.0	**Phase-Down of Intrastate & Interstate Terminating Rates**	
7.1	Phase 1: transition terminating intrastate switched access rates to interstate levels in two steps.	▪ 69.106 (Local Switching) ▪ 69.108 (Transport Rate Benchmark) ▪ 69.109 (Information) ▪ 69.110 (Entrance Facilities) ▪ 69.111 (Tandem-Switched Transport & Tandem Charge) ▪ 69.112 (Direct-trunked Transport)

ICC Reform for Rate of Return Companies		
No.	**Change Description**	**Potential Rule Impacts**
7.2	Phase 2: transition terminating end office charges to $0.005/minute in three annual steps beginning in year three.	▪ 69.106 (Local Switching) ▪ 69.109 (Information)
7.3	Phase 3: transition terminating end office charges to $0.0007 in three annual steps beginning in year six.	▪ 69.106 (Local Switching) ▪ 69.109 (Information)
7.4	Limitations on rate reductions due to funding shortfalls	▪ 69.106 (Local Switching) ▪ 69.108 (Transport Rate Benchmark) ▪ 69.109 (Information) ▪ 69.110 (Entrance Facilities) ▪ 69.111 (Tandem-Switched Transport & Tandem Charge) ▪ 69.112 (Direct-trunked Transport)
8.0	**Reciprocal Compensation Rate Adjustments**	
8.1	Apply rate transitions to reciprocal compensation rates at appropriate step.	▪ Part 51 (Interconnection Rules)
9.0	**Rural Transport Rule**	
	Limit obligations of RLECs to transport originating traffic beyond existing meet-points (similar to Missoula Plan approach).	

Restructure Mechanism		
10.0	**Increases in End-User SLCs Up to Benchmark**	
10.1	Establish a six year schedule for increases of Monthly interstate SLC charges of $0.75 each year (not to exceed $25 residential benchmark)	69.104 End User Common Line)
11.0	**Calculation of RM Amounts**	

ICC Reform for Rate of Return Companies		
No.	**Change Description**	**Potential Rule Impacts**
11.1	Calculation of Restructure Mechanism funding amounts	▪ 54, new Subpart L
12.0	**Shift Intrastate RM Revenue Requirements to Interstate for Recovery via Federal mechanism**	
12.1	Establish expense adjustment-type mechanism to shift costs associated with foregone intrastate revenues to interstate jurisdiction for recovery via RM.	Part 36
13.0	**Intrastate Earnings Test at 10% Rate of Return**	
13.1	Limit RM support based on application of earnings test at 10% rate of return to intrastate regulated operations.	▪ 54.xxx
13.2	Data Submission for Earnings Test	▪ 36.611

USF Reform for Rate of Return Companies		
No.	**Change Description**	**Potential Rule Impacts**
	Constraints on Capital Expenditure and Operating Expense Expenditures	
14.0	**Limit Recovery of Capital Investment Based on Depreciation Percentages**	
14.1	Modify loop cost to recognize limitation on annual investment growth consistent with Vantage Point proposal filed by rural associations.	▪ 36.621(a) for HCL ▪ 36. Xxx for Common Line ▪
14.2	Eliminate HCL Quarterly Updates	36.612 (delete section)
15.0	**Extension of Current Cap on Recovery of Corporate Operations Expenses in HCL to Other Programs**	
15.1	Modify the corporate operations expense assignment for interstate revenue requirements to mirror the limitation for HCL support. (limitations amounts remain in intrastate jurisdiction)	▪ 36.392 ▪
		▪
	CAF Implementation	
16.0	Define Connect America Fund (CAF) for Rural Rate of Return Carriers.	▪ 54.5
		▪
17.0	**Calculation of Rural Broadband Network Transmission Costs (RBNTC)**	
17.1	Establish procedures for calculating RBNTC based on today's costs.	▪ New part 54.1103 ▪ 36.154 ▪ 69.501
17.2	Add definitions as needed.	▪ 54.5
18.0	**Establish CAF Benchmarks**	
18.1	Rules establishing fixed and variable CAF benchmarks	▪ 54.1103(c)
19.0	**Calculation of CAF Amounts**	

USF Reform for Rate of Return Companies		
No.	**Change Description**	**Potential Rule Impacts**
19.1	Rule establishing support payments	▪ 54.1103(d)
	Rule modifying ICLS for CAF transition	▪ 54.901 and 54.1103(e)
20.0	**Assign Loop Costs to Interstate**	
20.1	Shift loop costs currently assigned to interstate common line and intrastate CL to new Broadband category for recovery via CAF. Also modify the separations rules so as to gradually increase last-mile interstate cost allocations based on broadband adoption rates, transitioned in over twelve years.	▪ 36.154
	Modify HCL calculation to subtract costs shifted from intrastate to interstate	▪ 36.631
21.0	**Administrator Submits Reports to FCC Projecting Growth of RM/CAF Fund Levels**	
21.1	Require USAC to submit reports to FCC projecting growth of RM and CAF.	▪ 54.702 (h)(1)
21.2	If RM or CAF projections exceed targeted levels, FCC initiates rulemaking proceeding.	▪ 54. 702 (h)(1)

RLEC RM Price-out by State and Interstate Component
($ in millions)

	Phase I		Phase II			Phase III		
	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8
Intrastate RM	$66.6	$132.9	$138.4	$145.3	$152.9	$147.5	$150.5	$153.0
Interstate RM	$16.9	$32.1	$69.6	$101.3	$129.0	$139.7	$150.1	$158.3
Total RM	$83.6	$165.0	$208.0	$246.6	$281.9	$287.2	$300.5	$311.3

Notes:

1. In phase I intrastate terminating switched access rates are reduced to capped interstate rate levels in two steps (Yr 1 and Yr 2) . In phase II, terminating end office rates are reduced to $.005 per minute in three steps (Yr 3 through Yr 5). In phase III, terminating end office rates are further reduced to $.0007 per minute in three steps (Yr 6 through Yr 8). Transport and tandem switching rates remain unchanged at capped interstate rate levels.

2. Net reciprocal compensation revenue is included and defined as the difference between reciprocal compensation revenue received from other carriers and reciprocal compensation expense paid out to other carriers.

3. A $25 local rate benchmark is used. It includes residential basic local exchange rate, intrastate and interstate SLCs, mandatory EAS, and state USF per line.

4. Additional SLC revenue is calculated by increasing monthly residential SLC rate by $.75 per year to reach the $25 benchmark, subject to a maximum of six increases of $.75 or $4.50.

5. Calculation of Intrastate revenue shortfall and RM:

   5a. Base year switched access terminating intrastate revenue plus net reciprocal compensation revenue is used as a surrogate for intrastate revenue requirement and adjusted by -2.99% annual growth.

   5b. Intrastate shortfall is calculated as the difference between intrastate terminating switched access revenue requirements in a given step and the revenue produced by targeted intrastate switched access terminating rates applied to actual demand in that step plus net reciprocal compensation revenue in that step. Actual demand is estimated by using a -8% growth in MOU.

   5c. Intrastate RM is calculated as the intrastate shortfall minus additional SLC revenue minus intrastate earnings offset for companies with more than 10% intrastate RoR.

6. Calculation of Interstate revenue shortfall and RM:

   6a. Interstate revenue requirement is adjusted by -2.99% annual growth.

   6b. Interstate shortfall is calculated as the difference between interstate revenue requirements less LSS in a given step and the revenue produced by capped or targeted interstate switched access rates in that step applied to actual demand for that step. Actual demand is estimated by using a -8% growth in MOU.

   6c. Interstate RM is calculated as the interstate shortfall minus additional SLC revenue in excess of the intrastate shortfall.